

SOUTH BELOIT WATER, GAS AND ELECTRIC COMPANY
EXHIBIT NO. 2.0

BEFORE THE

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

**SOUTH BELOIT WATER, GAS and
ELECTRIC COMPANY**

**Re: Delivery Services Tariffs
submitted pursuant to Section 16-104
and Section 16-108 of the Illinois Public
Utilities Act**

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Docket No. 01-_____

DIRECT TESTIMONY OF

Brian E. Penington

FOR

South Beloit Water, Gas and Electric Company

September 28, 2001

OFFICIAL FILE
I.C.C. DOCKET # 01-0629
SB
Date 1/3/02

1 **Q. Please state your name and business address.**

2 A. My name is Brian E. Penington and my business address is, P.O. Box 192, 222
3 West Washington Avenue, Madison, Wisconsin 53701-0192.

4 **Q. By whom are you employed?**

5 A. I am employed by Alliant Energy Services Company, Inc. ("AESC") as a
6 Regulatory Pricing Analyst.

7 **Q. How long have you been employed by Alliant Energy Services Company?**

8 A. I have been employed by AESC for two years.

9 **Q. On whose behalf are you testifying?**

10 A. On behalf of South Beloit Water, Gas and Electric Company ("SBWGE").

11 **Q. What are your duties as a Regulatory Pricing Analyst?**

12 A. My current responsibilities include the design, analysis, and implementation of
13 gas, electric and water rates in Alliant Energy's Wisconsin and Illinois service
14 territories, along with providing support for projects that involve regulatory
15 pricing concerns.

16 **Q. Please describe your educational background.**

17 A. I received a Bachelor of Science degree in Economics from Northern Illinois
18 University. I have also completed various industry-sponsored training courses,
19 including Practical Skills For a Changing Utility Environment, as co-sponsored
20 by the Center for Public Utilities - New Mexico State University and the National
21 Association of Regulatory Utility Commissioners.

1 **Q. Please describe your work experience prior to joining Alliant Energy**
2 **Services.**

3 A. Before joining Alliant Services I was employed for three years by Wisconsin
4 Public Service Corporation as a Market-side Forecaster in the Rates and
5 Economic Evaluation Department where my responsibilities included the
6 development of electric and gas consumption forecasts, as well as varying projects
7 requiring economic and statistical analysis.

8 **Q. Please describe Alliant Energy's public utility subsidiaries.**

9 A. Alliant Energy Company is a holding company which owns AESC and three
10 public utility subsidiaries. They are Wisconsin Power and Light Company
11 ("WPL"), Interstate Power Company ("IPC") and IES Utilities Inc. ("IES"). In
12 addition, WPL has a wholly owned utility subsidiary, SBWGE.

13 **Q. Please describe SBWGE.**

14 A. SBWGE supplies electric, gas and water services principally in Winnebago
15 County, Illinois serving approximately 7,300 customers in total. SBWGE is a full
16 requirements customer of WPL with a peak demand in 1994 of 45 Megawatts.

17 **Q. Please describe the purpose of your testimony.**

18 A. I will present testimony in support of SBWGE's delivery service tariff filing. The
19 residential delivery service tariff filing is a requirement of section 16-104 of the
20 Illinois Public Utilities Act of 1997 and is a mandated filing for Illinois electric
21 utilities, including SBWGE. Although this filing only requires the utility to file
22 residential delivery service rates, SBWGE will be proposing to revise all delivery

1 service rates to reflect the current revenue requirements. I will discuss three
2 subject areas related to the filing in my testimony. The three subject areas
3 include:

- 4 • The cost of service study used to allocate the delivery service revenue
5 requirement to rate classes.
- 6
- 7 • The design of delivery service rates.
- 8
- 9 • The terms and conditions of delivery service tariffs.
- 10

11 Mr. Martin Seitz will present testimony on the development of the revenue
12 requirement for SBWGE's delivery services tariff in SBWGE Exhibit _____
13 (MWS-1.0). Mr. Enrique Bacalao will provide testimony on the development of
14 the return on equity used in developing SBWGE's delivery service tariff in
15 SBWGE Exhibit _____ (EB-3.0).

16 **Q. Please describe how your testimony is organized.**

17 **A.** My testimony is divided into three main sections. Section I of my testimony
18 covers class cost of service issues related to SBWGE's delivery service tariff.
19 Section II of my testimony covers the design of SBWGE's delivery service rates.
20 Section III of my testimony covers the terms and conditions of the delivery
21 service tariff.

22 **SECTION I: COST OF SERVICE STUDY**

23 **Q. What is the purpose of the Cost of Service Study portion of your testimony?**

24 **A.** SBWGE is required to file an embedded cost of service study used to develop
25 delivery service rates. This section of my testimony addresses the embedded cost
26 of service study used in developing SBWGE's delivery service rates.

1 **Q. What is the purpose the SBWGE embedded cost of service study?**

2 **A. The embedded cost of service study presents the functionalization, classification**
3 **and allocation to SBWGE rate classes of all Illinois jurisdictional delivery service**
4 **costs on the SBWGE system. The cost of service study is used as the basis for**
5 **designing delivery service rates.**

6 **Q. What was the basis of the jurisdictional delivery service costs used in the cost**
7 **of service study?**

8 **A. The jurisdictional delivery service costs were obtained from the revenue**
9 **requirement produced by SBWGE witness Mr. Martin Seitz. Mr. Seitz provides**
10 **testimony on the development of the delivery service revenue requirement.**

11 **Q. Please summarize the delivery service costs from the revenue requirement**
12 **that were used in the cost of service study.**

13 **A. The total delivery service revenue requirement presented in Mr. Seitz's testimony**
14 **is \$3,161,602. The revenue requirement is broken into two main categories,**
15 **distribution revenue requirement and customer revenue requirement. The two**
16 **main categories are divided into further sub-categories. A summary of the two**
17 **main categories, the sub-categories and the revenue requirement (in thousands of**
18 **dollars) allocated to each category is summarized below.**

19 **Distribution Revenue Requirement**

- 20 • Lines and Substations - \$1,511
21 • Meters \$131
22 • Services \$302
23 • Street Lighting \$48
24 • Transformers \$335

25 **Customer Revenue Requirement**
26

- Customer Accounting \$479
- Customer Services \$355

Q. Did you use the categories listed above in the development of your cost of service study?

A. Yes, though I did divide the lines and substations category into three separate categories that included substations, primary lines and secondary lines.

Q. Why did you divide the lines and substation category into finer detail?

A. Allocating costs down into these detailed categories allowed secondary distribution costs to be allocated to secondary customers only.

Q. How was the allocation of the lines and substation category into the substations, primary lines and secondary lines performed?

A. The allocation was based on an estimation of the costs associated with substation primary lines and secondary lines in SBWGE jurisdictional territory.

Q. What are the cost of service study allocators used to allocate the items in the delivery service revenue requirement listed above to specific rate classes?

A. A list of the revenue requirement categories and the allocation methods applied to the categories are summarized below.

- Primary lines - Class coincident demands all retail customers.
- Substations - Class coincident demands all retail customers.
- Secondary lines - Non-coincident demands of secondary customers.
- Meters - Meter investment per customer class.
- Distribution Services - Investment in services per customer class.

- 1 • Street lighting - Direct allocation to street lighting class.
- 2 • Transformers - Non-coincident demand of secondary customers.
- 3 • Customer accounting - Number of customers.
- 4 • Customer service - Class kWh including distribution losses.

5 **Q. What rate classes was the delivery service revenue requirement allocated**
6 **across?**

7 A. A list of the rate classes used to allocate the revenue requirement is presented in
8 SWBGE Exhibit _____ (BEP-2.1).

9 **Q. Why did you use the rate classes in SWBGE Exhibit _____ (BEP-2.1) to**
10 **allocate the delivery service revenue requirement?**

11 A. The rate classes in SWBGE Exhibit _____ (BEP-2.1) mirror the rate classes
12 that currently exist in SBWGE bundled service tariffs. Allocating based on these
13 costs was performed for two reasons. First, historic data is available based on
14 these rate classes to use in the development of allocaters. Secondly, the final
15 delivery service rates are developed based on the current bundled tariffed rates
16 offered by SBWGE.

17 **Q. Can you provide a summary of the revenue requirement allocated to each**
18 **rate class?**

19 A. Yes. SWBGE Exhibit _____ (BEP-2.1) provides such a summary.

20 **SECTION II: RATE DESIGN**

21 **Q. What is the purpose of the rate design portion of your testimony?**

1 A. The purpose of the rate design portion of my testimony is to justify the delivery
2 service rate structure proposed by SBWGE.

3 **Q. What do you believe are the fundamental concepts that underlie the SBWGE**
4 **delivery service rate design?**

5 A. I believe that there are five basic concepts that need to be addressed in the design
6 of SBWGE delivery service rates. The five concepts are:

- 7 1. Delivery service rates must be designed to collect the delivery service
8 revenue requirement.
- 9 2. Delivery service rates must be fair and equitable between all customer
10 classes.
- 11 3. The rate design should provide clear and stable price signals so that
12 customers can readily identify their options in selecting electric service
13 alternatives.
- 14 4. The rates must not inhibit the development of a competitive electric
15 energy market. If at all possible the rates should encourage the
16 development of a competitive electric energy market.
- 17 5. If practicable the rate structure should be similar to the current SBWGE
18 bundled electric tariffs to minimize customer confusion regarding the
19 new delivery service tariffs.

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25 **Q. What was the primary source of costs used in the development of the delivery**
26 **service tariffs?**

27 A. The cost of service study discussed above provided the basic cost structure used to
28 design the delivery service rates.

29 **Q. Can you explain the basic rate classes of delivery service tariffs that you**
30 **propose for SBWGE?**

1 A. Yes. I attempted to mirror the delivery service tariff rate classes for SBWGE to
2 the existing bundled electric rate classes of SBWGE. For example, there is
3 currently a Cp-1 bundled tariff for SBWGE. I have created a delivery services
4 version of the Cp-1 tariff that has the same features as the current bundled Cp-1
5 tariff except for the level of rates associated with the delivery service tariff versus
6 the level of the rates for the bundled Cp-1 tariff.

7 **Q. Can you provide a list of the delivery service classes and tariffs that you are**
8 **proposing for SBWGE?**

9 A. Yes. SWBGE Exhibit _____ (BEP-2.2) provides the proposed delivery service
10 tariffs for SBWGE.

11 **Q. Can you provide a basic description on how you arrived at the specific**
12 **charges associated with each rate class?**

13 A. Yes. In most cases I attempted to use the same billing components in the delivery
14 service rates as currently exist in the comparable bundled service tariff. For
15 example if the bundled electric tariff contains a customer charge and an energy
16 charge the delivery service tariff will also contain a customer charge and an
17 energy charge.

18 **Q. How did you determine the level of a rate to be assigned to a specific billing**
19 **component?**

20 A. I relied to a large degree on the structure of the current bundled electric tariffs
21 offered by SBWGE. For instance if a customer charge was \$5 on the bundled
22 tariff I attempted to use a \$5 customer charge for the delivery service counterpart

1 of the bundled tariff less the unbundled cost for metering. Additional revenue
2 requirement for a rate class that was not collected through the customer charge is
3 collected through another billing component such as energy or demand.

4 **Q. Did you deviate at all from the methodology discussed above in the**
5 **development of delivery service rates for SBWGE?**

6 A. Yes. For the area lighting, street lighting and traffic signal bundled service rates
7 offered by SBWGE I deviated from the methodology discussed above.

8 **Q. Why did you deviate for these rate classes?**

9 A. Each of these classes contains various service cost components and metering
10 attributes that are different from other bundled rate categories. For example the
11 area lighting category has a bundled tariff that includes specific equipment costs,
12 maintenance options and generation, transmission and distribution costs
13 embedded into the rate structure. It is difficult to unbundle these items and
14 produce a reasonable delivery service tariff.

15 **Q. How did you design delivery service tariffs for area lighting, street lighting**
16 **and traffic signal classes of customers?**

17 A. For the area lighting, street lighting and traffic signal classes of customers an
18 energy credit based on the bundled GS-1 off-peak tariff will be credited to the
19 customer's bill based on the usage of the customer.

20 **Q. Do you believe that the rate design that you are proposing for SBWGE**
21 **accomplishes the five fundamental concepts that you have outlined above?**

1 A. Yes. I believe the proposed SBWGE delivery service rate design satisfies the five
2 fundamental concepts listed above. Clearly the offering of delivery service tariffs
3 is a new experience for all Illinois electric utilities, including SBWGE, thus I
4 expect that delivery service tariffs will evolve over time. As the delivery service
5 tariff and implementation plan hearing process proceeds additional ideas will
6 likely come to the forefront that may need to be addressed in each utilities
7 delivery service tariff filing including SBWGE.

8 **SECTION III: TERMS AND CONDITIONS OF THE**
9 **DELIVERY SERVICE TARIFF**

10 Q. **What is the purpose of this section of your testimony?**

11 A. The purpose of this section of my testimony is to discuss the terms and conditions
12 of SBWGE's delivery service tariff.

13 Q. **What is the purpose of the terms and conditions section of the SBWGE**
14 **delivery service tariff?**

15 A. The terms and conditions section of the delivery services tariffs is divided into
16 two main sections. The purpose of the first section of the tariff is to stipulate the
17 relationship between SBWGE and the customer necessary to exist for the
18 provision of delivery services by SBWGE to the customer. The purpose of the
19 second section of the tariff is to stipulate the relationship between SBWGE and a
20 Retail Electric Supplier (RES) necessary to exist for the provision of delivery
21 services by SBWGE to a customer.

1 **Q. What changes do you propose?**

2 A. The changes I propose are limited to: a) re-arranging the current delivery tariffs in
3 the order prescribed by the Commission in its March 21, 2001 Docket 00-0494
4 Order; b) changing the Availability section of the tariffs to indicate that residential
5 customers are now also eligible for delivery service; c) eliminating outdated
6 language regarding the availability of the tariffs to only certain segments of non-
7 residential customers; d) moving miscellaneous charges to the new rates section
8 of the tariff; and e) adding tariff language which describes the relationships
9 among the customer, the energy supplier and the company, including the
10 company's right to disconnect a customer for non-payment by the supplier who
11 elects to bill the customer under the single bill option. The proposed delivery
12 service tariffs are found in SBWGE Exhibit _____ (BEP-2.3).

13 **Q. What does the company propose regarding the definitions included in**
14 **tariffs?**

15 A. At the time of this filing, there is not a uniform set of delivery service tariff
16 definitions that have been agreed upon for use by all Illinois utilities. If such a set
17 of definitions is agreed to before the record is closed in our delivery services
18 proceeding, we will propose to incorporate the definitions in our tariffs.

19 **Q. Have any non-residential customers elected to take delivery service?**

20 A. No. As of the date of filing of the instant testimony, no non-residential customers
21 have elected to take delivery service.

22 **Q. Does this conclude your direct testimony?**

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1 A. Yes.